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C O N F I D E N T I A L SECTION 01 OF 02 RIGA 000174

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TAGS: [PGOV](#) [KJUS](#) [KCOR](#) [LG](#)
SUBJECT: AUDITS REVEAL STAGGERING COST OVERRUNS IN
GOVERNMENT CONSTRUCTION

Classified By: Charge d'affairs a.i., Bruce D. Rogers. Reason 1.4(d)

¶1. (C) Summary: Audits of several state-funded construction and renovation projects have uncovered staggering cost overruns. The State Audit Office has submitted these cases to the Prosecutor General to determine whether and, if so, where to initiate investigations. Meanwhile, other large-scale construction projects, most of which are tied to the largest Latvian construction company, Skonto Buve, continue under a cloud of controversy. The audits have confirmed widespread suspicions of waste and mismanagement in these projects, though only post-project and disappointingly not through internal checks during the project lifespan. End Summary.

¶2. (U) The State Audit Office exposed extraordinary cost overruns in several state-funded construction and renovation projects. Inguna Sudraba, Head of the State Audit Office and a person highly-trusted by the Latvian public, has recently announced the detailed findings of a number of major audits. The State Real Estate Management (VNI) office ran over budget by 22.1 million lats (\$44 million) in the building or refurbishment of many government structures including the Ministry of Foreign Affairs and the Ministry of Interior. Another recent report, which the Riga City Council tried to block, stated that 27 million lats (\$64 million) were squandered on Riga's Southern Bridge - an amount that Guntis Ravis, Chairman of Skonto Buve, the bridge's prime contractor, rationalized as due largely to inflation. Prime Minister Valdis Dombrovskis stated to the press that the amount did not surprise him and that the Southern Bridge seemed to be "among the most costly bridges in the world."

¶3. (C) In all of these cases the State Audit Office has identified "cost overruns" but not specifically stated that these were the result of corrupt practices or kickbacks. The audit office has forwarded information from the audits to the Prosecutor General's office. If they suspect corruption, the cases will be forwarded to the Anti-Corruption Bureau (KNAB) for investigation. If the Anti-Corruption Bureau (KNAB) uncovers evidence of corrupt activity, the case will then be returned to the Prosecutor General's office for prosecution. This is a process that can take years, appeals are many, sentences can be light and those benefiting from padded budgets know that they face little likelihood of either swift or serious punishment.

¶4. (U) These audits have not stopped the construction of the National Library, where allegations of cost overruns and corrupt contracting are rampant. Ints Dalderis, the current Minister of Culture, has vowed to continue with the Library, and has promised transparency and control of expenses in the over 24 million lat (\$48 million) budget. Dalderis' predecessor, Helena Demakova, was forced out when she signed a design contract for a similar project, a new concert hall, in secret and without the knowledge of the Prime Minister. Yet there was only the briefest of reactions to this because most Latvians simply assume problems in these large construction projects.

¶5. (C) Skonto Buve, Latvia's largest private construction company, with alleged ties to several political parties, is included on some level in every large-scale building project, all of which the public views suspiciously. However, even in the most egregious of these cases, the Southern Bridge project, the State Audit Office found no derogatory information on Skonto Buve's activities. As NGO counter-corruption watchdog Transparency International/Delna Director Laura Mikelsons put it, "The reputation of Skonto is undermined but not on a concrete or factual basis." Local businessmen hear rumors of corrupt activity involving contracts and land deals with Skonto Buve. Even the KNAB has investigated allegations against them, finding no illegalities.

¶6. (C) Comment: To the public and to the international community, the Latvian government has reacted to the economic crisis with much lamenting and sincere promises of belt tightening. Yet somehow construction scandals such as these still surface, involving total cost overrun sums which approach a significant percentage of painful government budget cut amounts. There have always been whispered suspicions of waste and mismanagement, and it is a positive step that the State Audit Office has put real numbers on paper. However, it is concerning that post-construction audits, and not internal checks during the life of the projects, uncovered the overruns. Even if the prosecution of corrupt officials and those who knew of irregularities happens sometime in the future as a result of the reviews, it still seems more like closing the barn door after the cash cow has escaped. End Comment

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